

July 24, 1967

CONGRESSIONAL RECORD — HOUSE

H 9195

and then refused to help them. There is, of course, no evidence to support this contention. In fact, the United States moved to assist the Hungarians in every possible way short of the use of force. The United States vigorously protested the invasion of Hungary, led the fight in the United Nations to censure the Soviet Union for the Hungarian invasion and to secure their withdrawal, and offered a sanctuary in the United States to more than 200,000 Hungarian refugees.

The reason for the failure of the Hungarian Revolt lay not so much in Washington, as in the deserts of the Sinai Peninsula. The spectacle of Western forces committing aggression there may well have emboldened Russians to retract her proffered appeasement offer to Hungary. From the chronology the conclusion is inescapable that the two crises interacted to Hungary's tragic disadvantage. Had the West not given the Russians an excuse the probability is that Hungary would have come out with at least the degree of independence within communism that Poland and Yugoslavia enjoyed.

President Eisenhower proclaimed "the peaceful liberation of captive peoples has been, is, and—until success is achieved—will continue to be a goal of U.S. foreign policy."

But the present administration has receded from this position.

Its willingness to accept the status quo in Eastern Europe, a willingness exemplified by its emphasis on dropping export controls, extending credit, easing the monetary problems of Poland and other examples of one-way bridgebuilding.

Its excessive emphasis on pleasant political relationships with the governments, with the result that the appearance of change is accepted instead of substance. Available peaceful leverage has not been used to advance basic freedoms and national independence.

The Eisenhower administration wisely and effectively used the policy of "reward and punishment"—rewarding regimes for signs of internal liberalization or external independence, and punishing them when the opposite occurred.

The Johnson administration has replaced "reward and punishment" with simply "reward" only. It apparently feels that unilateral economic concessions on our part must occur before we can expect any promising developments in the East.

As a consequence, by extending concessions without a quid pro quo, the United States has sacrificed valuable leverage which could have been used to influence events to our advantage.

The policy of evolutionary liberalization—in which "reward and punishment" play a key role—is still the best forward strategy for Eastern Europe. The greatest advances in religious tolerance, intellectual freedom, economic decentralization, and external independence occurred when it was in effect.

Since 1961 when the new "reward-only" policy began under the attractive euphemism "peaceful engagement," the lines in Germany have hardened, Poland has slipped back from earlier advances, the Berlin wall has been built, and most of the regimes have followed the Soviet

lead in engaging in war by proxy against U.S. forces in Vietnam.

(Mr. QUIE (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

[Mr. QUIE'S remarks will appear hereafter in the Appendix.]

(Mr. GUBSER (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

[Mr. GUBSER'S remarks will appear hereafter in the Appendix.]

ABM file
MEGATONS DO COUNT

(Mr. HOSMER (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

Mr. HOSMER. Mr. Speaker, the following report was made to the House Republican conference under date of July 23 by the chairman of its Committee on Nuclear Affairs:

From: Representative CRAIG HOSMER, Chairman, House GOP Conference Committee on Nuclear Affairs.

To: House GOP Conference.

Subject: Megatons Do Count.

On July 11 a study was revealed entitled "The Changing Strategic Military Balance, U.S.A. vs. U.S.S.R." It was prepared for the House Armed Services Committee by the National Strategy Committee of the American Security Council. It concludes that the Soviet Union will achieve a marked nuclear superiority over the United States in terms of deliverable nuclear megatons by 1971 unless steps are at once taken to improve American capabilities. By that time, the study asserts, the Soviet Union will have a delivery capability in the range of 30,000 to 50,000 strategic nuclear megatons while that of the United States will range from 6,000 to 15,000 megatons.

Secretary McNamara's office made its standard response to the study, namely: deliverable megatonnage does not count—it is not an accurate indicator of "true military capability."

In general, McNamara's strategic nuclear philosophy of "assured destruction" places great reliance on larger numbers of missiles carrying smaller warheads—generally and unofficially considered to be in the range of around one megaton and less. In general, Soviet strategic nuclear philosophy stresses smaller numbers of missiles carrying larger warheads—assumed to be in the range of around 20 megatons and upward.

As to Anti-Ballistic Missile (ABM) defenses, Mr. McNamara takes a generally cautious attitude about deployment, while the Soviets move rapidly ahead with these "damage limitation" devices.

Is megatonnage the measure of firepower in the nuclear age?

Should ABMs be deployed to reinforce our deterrence?

Here are two basic issues vital to the national defense and survival on which there is a clear cut division. The following hypothesis based on the use in anger of just eighteen 100 megaton warheads (1,800 megatons total) may be helpful in your own analysis of these issues:

SCENARIO ¹

Two pm

At precisely two o'clock in the afternoon of a clear fall day almost the entire states of Massachusetts, Rhode Island and New Jersey burst into flames. So did New York City, Hartford, Philadelphia, Baltimore and Washington, D.C. Essentially the entire East Coast from Portland Maine, to Norfolk, Virginia, up to 150 miles inland, became one raging, all consuming fire storm.

At the same moment a 170 mile-wide, 22,500 square-mile circle of flame erupted across southern portions of Louisiana, Mississippi and Alabama from New Orleans and Baton Rouge through Biloxi to Mobile, destroying all within it. Detroit, Toledo, Cleveland and half of Ohio met a similar single fate as did portions of Wisconsin, Illinois and Indiana from Milwaukee through Chicago, on to Gary and South Bend.

On the Pacific Coast flames consumed Portland and Seattle and everything between them. A fiery torch descended on California's northern population and industrial centers of San Francisco, Oakland, San Jose, Stockton, Sacramento and Vallejo. Simultaneously nine million Southern Californians, including another major fraction of the nation's scientific and industrial talent, were incinerated in a band of fire from Oxnard, north of Los Angeles, to San Diego and the Mexican border.

Three 100 megaton bombs, optimized for thermal (heat) radiation, had exploded at altitudes below 50,000 feet to create the East Coast conflagration and over each of the other six areas described one more had detonated.

At the same instant eight 100 megaton monsters had burst in a spread over U.S. ICBM complexes in the triangle from Arkansas to Montana to Arizona, incidentally igniting Phoenix, Tucson, Little Rock, Wichita, Cheyenne, Kansas City, Great Falls and many more cities. The eighteenth hostile warhead exploded 4,000 feet below the waters of the Pacific on slopes of the Aleutian Deep. It created a tidal wave 28 to 70 feet high which speeded at over 200 MPH to destroy Alaskan, Hawaiian and otherwise undamaged Pacific Coast areas.²

Fire storms—a hundred times more intense than WW II's which consumed Hamburg and other German cities—raged in part or all of 34 of the 50 States. Habitable portions of two more states were 80% destroyed by ocean waters. Neither fallout nor blast effects of the bombs added much damage. They were designed to kill with heat and fire. But considerable loss of life outside the fire storms occurred from suffocation. Major casualties also resulted from winds of more than hurricane proportions feeding oxygen to the blazes. In all, a fair portion of the continent's oxygen was used up by combustion. Not enough was left in many places to support life. This lack eventually snuffed out many of the fire storms, too.

Three of every five Americans were dead and the nation's military-industrial back was broken.

A very unusual survivor

A shaken survivor recalled late Secretary of Defense Robert McNamara's March 2, 1967, testimony to Congress³ that 120,000,000 American casualties would be suffered from a surprise, first strike nuclear attack. There

¹ Based on AEC Release D-279 (Rev.) of Oct. 31, 1961, estimating possible effects of nuclear detonations up to 100 megatons, and "The Effects of Nuclear Weapons," Samuel Glasstone, Ed., USAEC, April, 1962.

² See "Tidal Waves" Ency. Brit. (1959 Ed.) Vol. 23, p. 443

³ House Committee on Armed Services, Hearings on Military Posture, p. 400 (90th Cong., 1st Sess.—1967).

H 9196

CONGRESSIONAL RECORD -- HOUSE

July 24, 1967

really was no way—or no one—now to check the Secretary's accuracy.

The survivor also remembered McNamara telling Congress this kind of attack would be ruled out by our "assured destruction" capability to inflict unacceptable retaliation, plus a "damage limitation" capability to reduce losses of our population and industrial capacity. Twice the Secretary had overruled a unanimous plea by the Joint Chiefs of Staff to build Nike-X, and ABM damage limiting system. He had pleaded "cost-effectiveness" and argued "the capability for assured destruction must receive the first call on all our resources."⁴ "I guess," thought the survivor, "the enemy didn't figure we had either capability."

When the bomb burst he was outside the area of complete ignition, but close enough to it (within 100 miles) to receive painful first degree burns on exposed parts of his body. He was semi-blinded by its intense flash. As he groped for shelter against more injury from hurtling objects made dangerous missiles by the ever increasing wind he reasoned:

"The Secretary miscalculated.

"He thought letting the enemy have nuclear parity would create stability—a mutual standoff. But they got parity and didn't stop. They went right on developing and putting big megatons in their arsenal. They stockpiled power while he talked cost-effectiveness and played numbers games with his critics. The Secretary was thinking of 'assured destruction' in terms of hardened silos and Polaris submarines and the effects of warheads we knew about before the Limited Test Ban Treaty stopped us from learning a lot more. They must have been thinking and working in terms of newer and different and more powerful things. Things about weapons and their effects they learned from their last string of over 50 uninhibited atmospheric and high altitude shots and we didn't or couldn't learn from our later underground tests.⁵ They had tight enough security to pull them off with surprise.

"Warning was given the Senate during ratification hearings on that treaty that this test series could have provided the enemy plenty of know-how to build ABMs and exotic high yield warheads beyond our knowledge. Of our knowledge Dr. John S. Foster, then Director of the Lawrence Radiation Laboratory and later DoD Research Director said, 'the most serious void has to do with the effect that nuclear explosions have on the operation of the (weapons) system, whether it is an offensive or defensive explosion or an offensive or defensive system.' They went ahead and built their big thermal warheads. They went ahead and built their ABM system. They aren't dumbbells, so they must have had confidence in them. Like Khrushchev said, 'we can hit a fly in the sky!'

"And, like an editorial a long time ago described them: '... and enemy and an ideology that are bent on world conquest. For the first time in history the United States finds itself confronted by the fierce rivalry not of an old empire but of a new one, ruthless, technically proficient, unhampered by the conscience of democratic morality or

the restraints of parliamentary government...'

"This very unusual survivor by now had wedged himself between something which gave some protection against the wind. It felt like two very large boulders, or possibly it was a covered culvert. He could not tell. He could not see and his sense of touch was numbed by his burns. He was having trouble breathing. It was not that he could not fill his lungs, but the air seemed to have less in it to feed them. He continued his recollections:

"Back in 1961 the enemy fired a 57 megaton test device. Everybody said it could be scaled up to at least 100 megatons. They must have got wise to its thermal, fire storm potentialities. They may also have learned how to use its great, surging electromagnetic pulse (EMP) over the other fellows' ICBM complexes attempting to jam communication command circuits and firing circuits and interfere with launching retaliatory missiles, to overwhelm missile guidance circuitry and make missiles which do get away unguided, and to attempt to cause their nuclear warheads to malfunction.

"The enemy also had done a lot of anti-missile type testing—much more than us—so they may have got a lot more data to develop operational AMBs than we did. I guess that's why they went ahead with them, despite Mr. McNamara's broad hint they didn't really know what they were doing and probably were wasting their money.⁶ I suppose that's why they went ahead with their ABM system. They must have believed they got a handle on a way to use long ranging nuclear radiation, to knock out incoming missiles instead of trying to do it by pin-point interception with an explosion. It's like the difference between using a shotgun and a rifle.

"It all adds up to the enemy using different numbers and different calculations and different knowledge than Mr. McNamara who believed he could kill 120 million of them in retaliation for this attack.⁷ They didn't believe it would cost them even a small fraction of the 120 million. They must have figured our silo-based retaliation would be pretty ragged after the fire storms and all that EMP and such from those 100 megatons blasts. They must have calculated their ABMs could pretty well handle it along with around 400 Polaris missiles—16 each from 25 subs probably on patrol out of the fleet of 41, the others being in for refitting, repair, stores and the like.

"The enemy could only have believed that the price for launching this attack was low enough to pay. It's over an hour since all this began—plenty of time for retaliation. I wonder how many of our missiles got off and how many got through? How many dead enemy are there? Could many SAC bombers get off? Can they get through even if missiles cannot? How badly have the enemy's population, industrial and defense centers been pounded?

"And, what if we did kill 120 million of them, or 200 million, and break their military-industrial back in retaliation? The whole point of our 'assured destruction' capability and our 'damage limiting' capability was to deter their attack in the first place with the promise of swift and deadly retaliation. It was not important that Secretary McNamara believed we had these capa-

bilities. Or even that we did, in fact, have them. What was important was that the enemy believed we had them and would use them. It was not important whether the enemy was right or wrong about believing that our retaliation could be suppressed within the limits of acceptable damage by the combination of its first strike damage and its ABM damage limitation system. If we had deployed ABMs too, their confidence in their own ABMs would have induced in them a confidence in our ABMs. They would have remained deterred and never have started all this killing and destruction in the first place. Our miscalculation on ABM deployment gave them the opportunity to miscalculate about launching a strike. I guess that is why it all started. We failed to add a new element to our deterrence which, whether or not cost-effective studies showed we needed it, was actually needed to impress the minds of the enemy's decision makers and keep them deterred from pushing the button."

The survivor began coughing and gasping for breath and his ruminations on nuclear strategy ceased.

Later—at northeastern sector command headquarters

Maj. Gen. Vladimir Z. Rostanovich tackled the paper work before him in a gloomy mood. From the beginning he had hated this desolate, alien post.

"It's like living in an old crematorium populated by zombies," he frequently complained.

Lately the large numbers of insects with which he shared it seemed to double in quantity, variety and harassment each day. Reports from other sectors indicated the same thing was happening there.

"It is the only life this blackened land will really support," he thought, "and in the end these damn bugs may take it over even from us who conquered it."

A sentry knocked and entered. He handed Rostanovich a charred, dirty bit of paper.

"One of our soldiers on patrol found it, Sir. Security thought you ought to see it," he said.

The Commandant read:

"Megatons do count. The numbers game wasn't all. Nike-X should have been started when the Joint Chiefs said." (signed) "Very Unusual Survivor"

Murmured Rostanovich, "how true, how true—how very lucky for us."

On July 17 the Los Angeles Times commented editorially on the American Security Council study referred to in the report to the Republican Conference warning against permitting Soviet leaders to miscalculate as to their strategic nuclear potential. The editorial follows:

BETTER SAFE THAN SORRY

Is the United States defense establishment strong enough to deter a nuclear attack by our potential enemies—or to destroy the attacking nation should deterrence fail? If the answer is yes, will we still be as safe in the 1970's?

Americans, like other democratic peoples, shrink from thinking too much about such grisly questions. Unfortunately, the totalitarians who rule in Moscow and Peking are not so squeamish.

It would be a mistake, therefore, to dismiss the warning by the American Security Council, a private organization, that the Soviet Union is well on the way to achieving a clear superiority in nuclear striking power by 1971.

The group insists that, if a Soviet preponderance is to be avoided, Washington must act now to build up our own strategic capabilities, and to install an anti-ballistic missile defense system.

⁴ Ibid., p. 389.

⁵ Joint Committee on Atomic Energy Hearings on "Developments in Technical Capabilities for Detecting and Identifying Nuclear Weapons Tests" p. 497 (88th Cong., 1st Sess.—1961).

⁶ Senate Preparedness Investigating Subcommittee Hearings on "Military Aspects and Implications of Nuclear Test Ban Proposal and Related Matters" p. 511 (88th Cong., 1st Sess.—1961).

⁷ New York Times Editorial, Jan. 7, 1960.

⁸ Senate Committee on Armed Services Hearings on "Military Procurement Authorizations for Fiscal Year 1968" p. 48 (90th Cong., 1st Sess.—1967).

⁹ See footnote 3.

July 24, 1967

Pentagon spokesmen rebut that this country has, and will continue to have, more than enough atomic weapons to "convince any enemy that an attack . . . would be suicidal."

The ASC study, prepared for the House Armed Services Committee, obviously does reflect the conservative bias of its authors—which include such retired officers as Gens. Bernard Schriever, Curtis LeMay and Thomas S. Power.

Nevertheless, the group marshals some impressive evidence to back up its major premise, which is:

" . . . the Soviet Union is succeeding in its massive drive toward strategic military superiority and the United States is cooperating in this effort by slowing down its side of the arms race."

There are some disturbing specifics.

The United States has shut down several plants producing weapons-grade nuclear materials, while expressing hope the Russians would do the same. Instead, Moscow has reportedly increased its output.

Both countries have agreed not to place nuclear weapons in orbit. Yet the Soviet Union has publicly displayed an orbital bomber (SCRAG). When queried, the Kremlin blandly explained that the agreement barred the orbiting of such weapons, but not their "development."

Washington has urged Moscow to join in a moratorium on deployment of immensely expensive anti-missile systems. But the Soviets are going right ahead.

Defense Secretary Robert McNamara has complete faith that the United States could absorb a Soviet first strike, and still destroy Russia with a retaliatory blow. But the ASC group, which includes Dr. Edward Teller, notes that we have no real way of knowing the effect of the huge warheads tested by the Russians in 1961.

"Many scientists," the study reports, "express concern that very high-yield explosions may cause a total communications blackout and thus prevent the transmission of a presidential order to retaliate."

The layman, without access to secret defense information, is hard put to make a judgment in these matters.

But it does seem clear that U.S. military preparedness must be based on sober assessments of Soviet capabilities, and not on optimistic assumptions about the Kremlin's peaceful intentions.

The power struggle which is reported under way now between Soviet "hawks" and "doves" shows that it would be extremely foolish to bank on the real or imagined benevolence of a particular leader.

IMPROVING OUR UNDERSTANDING OF CONSUMER WEALTH

(Mr. CURTIS (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. CURTIS. Mr. Speaker, the Federal Reserve Bank of Chicago, in its June 1967 edition of *Business Conditions*, presents some interesting data on consumer wealth holdings. The study is important for its contribution to advancing our knowledge of wealth holding in our society.

One of the most useful features of the article is its careful description of the methodology of the study. The study was

in the form of a sample survey of 2,557 consumer units. With such a small sample, the greatest danger is not having enough units in the highest wealth strata to provide reliable data. To correct this, the sample was structured to include a greater portion of those expected to own substantial wealth holdings.

A wide variety of forms of wealth were studied. Nonetheless, several elements had to be omitted because their measurement was too complicated.

This description of the methods used to compile data suggests some of the difficulties in improving our statistics on consumer wealth. In 1965, the Subcommittee on Economic Statistics of the Joint Economic Committee, under the chairmanship of my distinguished colleague, Senator WILLIAM PROXMIRE, held hearings on wealth statistics. We, too, learned that less information generally has been available on wealth and the forms in which it is held than on other aspects of consumer finance. The approach of the Federal Reserve Bank of Chicago seems to surmount some of the problems of gathering wealth statistics.

Their article offers a method for gathering information on the amount, distribution, and forms of consumer wealth. At the same time, its findings offer valuable insights into the holding of wealth. They highlight the differences between the composition of the holdings of those with little wealth and of those with substantial assets. A knowledge of these differences fosters greater understanding of the incidence of taxation.

Under unanimous consent I place this article in the RECORD at this point:

NEW FINDINGS ON CONSUMER FINANCES— CLOSER LOOK AT THE WELL-TO-DO

Sample surveys have long since demonstrated their usefulness as a means of obtaining information on the economic behavior and position of American consumers. Thanks to modern methods of sampling and questionnaire design, field interviews conducted with a small number of randomly selected family units often yield dependable descriptions of the whole consumer population.

The problem of sample selection may be complicated, however, when such a survey seeks information on population characteristics that are unevenly distributed, such as wealth. While nearly all family units possess at least some wealth, the amounts vary widely; substantial holdings, of course, are largely concentrated among the relatively small number of the well-to-do.

If a sample is no larger than is necessary to provide dependable information on the numerous family units in the lower and middle income and wealth ranges, it may be too small to include enough cases from the upper brackets to produce useful information for that group. Similarly, if the size of a sample is great enough to yield valid information for the top-bracket families, it ordinarily will be far larger than is necessary to cover adequately those in other strata of the population. And, of course, the larger the sample, the greater the cost of a survey.

Because of these factors less information generally has been available on consumer wealth and the forms in which it is held than

on other aspects of consumer finance. Released late in 1966, however, were results of a sample survey, conducted by the Federal Reserve Board with the cooperation of the U.S. Bureau of the Census, which was specifically designed to provide meaningful information on consumers' wealth and other financial characteristics, for the population overall and especially for the comparatively small number of families holding the bulk of individual wealth.¹

A total of 2,557 consumer units (families and unrelated individuals in separate households) were covered by field interviews conducted in the spring of 1963. Findings of the initial survey were checked by re-interviews held in the spring of 1964 in connection with another study, devoted to consumer saving in 1963. The 1963 interviews dealt with the assets and debts of respondents as of December 31, 1962, and income received during the year 1962.

If a simple proportional sample of all households had been taken, only about 50 with wealth of 100,000 dollars or more would have been included. Moreover, only a few of these would have had holdings as great as 500,000 dollars. Obviously, so small a number of such households could not be expected to yield information that would provide a basis for reliable estimates concerning the large wealth holdings of this group. Therefore, the sample was structured to include a greater proportion of those in the population expected to hold substantial wealth. Of the 2,557 interviews conducted, 532 were with units having wealth of at least 100,000 dollars and almost half of these held at least 500,000 dollars. These numbers were great enough to produce dependable readings on certain features of the wealth profile of the well-to-do.

The survey sought information on a wide variety of forms of wealth. But the information furnished by respondents on one of the major categories—equity in life insurance, annuities and retirement funds—proved undependable and therefore was omitted from the totals finally compiled. (Many persons have only the most general of impressions on their equities in such assets.)

The various kinds of wealth and debt covered were grouped under six major headings: homes, automobiles, business or professions, liquid assets (checking and savings accounts and U.S. savings bonds), investment assets (mainly marketable securities, investment real estate and mortgages) and a miscellaneous group made up principally of assets in trust funds. This enumeration excludes household goods, personal effects, jewelry and works of art, boats, sports equipment and the like—largely because of the virtual impossibility of assigning consistent value estimates to such properties.

Assets were valued for the most part at market. Wealth as used in the survey was an equity concept in that debt secured by assets was deducted from the asset values. Three-fourths of the debt thus deducted represented home mortgages. Debts secured by automobiles, marketable securities and investment real estate also were deducted from related asset values.

¹ Findings appear in the monograph, *Survey of Financial Characteristics of Consumers*, by Dorothy S. Projector and Gertrude S. Weiss, available from the Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (\$1.00 per copy).

H 9198

CONGRESSIONAL RECORD — HOUSE

July 24, 1967

MAJOR FORMS OF WEALTH HOLDINGS

Size of wealth (thousands of dollars)	All wealth	Home	Auto	Business	Liquid assets	Investment assets
Percent of wealth group having asset form						
Under 1.....	100	9	74	3	70	4
1 to 4.....	100	54	76	8	78	14
5 to 9.....	100	78	77	16	85	30
10 to 24.....	100	84	82	19	96	42
25 to 49.....	100	80	88	38	97	64
50 to 99.....	100	72	89	54	98	89
100 to 199.....	100	86	93	53	100	93
200 to 499.....	100	84	84	57	97	95
Over 500.....	100	81	79	66	100	99
Average equity in thousands of dollars						
Under 1.....	(¹)	(¹)	(¹)	(¹)	(¹)	(¹)
1 to 4.....	3	1	1	1	1	2
5 to 9.....	7	4	1	1	3	8
10 to 24.....	16	9	1	1	6	24
25 to 49.....	35	13	1	7	11	64
50 to 99.....	69	14	1	17	21	169
100 to 199.....	133	23	2	23	46	628
200 to 499.....	300	26	2	72		
Over 500.....	1,260	56	3	295		

¹ Less than \$500.

By its nature, a survey of consumer wealth ignores several elements that can play a role somewhat akin to that of wealth itself. One of these is the face value or the size of the stream of prospective benefits that may accrue under insurance and retirement income plans, including social security. The motive to acquire wealth as it is conventionally defined may be affected materially by the availability of such resources. Another factor is the family's "credit line," or its borrowing potential. Ready access to credit may be a good substitute for some portion, if not all, of financial savings.

HIGHLIGHTS OF THE SURVEY

Of the nation's total of 57.9 million consumer units, 10 percent were estimated to have either zero or negative equity in the asset classes covered in the survey.² Another 16 percent had positive equities of less than 1,000 dollars. In short, roughly one consumer unit in four had wealth of less than 1,000 dollars; alternatively, three out of four of the units had wealth greater than this.

For the big majority of units, the amount of wealth owned was the result of the size and the nature of past saving. In only 5 percent of all the cases had inheritances contributed substantially to the wealth held. Inheritances, however, were of considerable importance to the well-to-do. Thus, assets acquired in this manner constituted a substantial portion of total assets to 34 percent of those units having total wealth of at least 500,000 dollars and to 57 percent of those with income of 100,000 dollars or more.

One or more of the forms of liquid assets (checking and savings accounts and U.S. savings bonds) were held by 79 percent of all consumer units and by virtually all of those with an income over 5,000 dollars and wealth over 10,000 dollars. Checking accounts at commercial banks were owned by more than 90 percent of those having an income of 15,000 dollars or more, or total wealth in excess of 50,000 dollars.

²This and succeeding characterizations of the survey population, of course, are literally descriptive only of the small number of consumer units sampled in the survey. If all consumer units had been interviewed, results undoubtedly would differ somewhat from those given here as well as in the full report. But the differences would be "small," so that the sample results may be interpreted as generally applicable to the population. For a discussion of the survey design and details on error ascribable to sampling variability and nonresponse, the reader is referred to the Technical Note included in the report.

The frequency of savings account holdings was the same as for checking accounts—59 percent. But these, unlike checking accounts, were reported less frequently by the top income and wealth groups than by those in the middle range. In part, this reflects a sharp fall-off in the frequency of savings and loan share ownership as between the middle and upper income and wealth groups, although savings account holdings at banks also were less commonly reported by those with an income of 50,000 dollars or more than by those in the 10,000 to 50,000 dollar range. Top level wealth holders (those with assets exceeding 500,000 dollars), however, reported such holdings with about the same frequency as those in the 25,000 to 500,000 dollar range.

The survey results show a strong direct relationship between the level of income and amount of wealth, on the one hand, and the relative importance of investment assets on the other. By contrast, liquid assets, while widely dispersed among consumer units in all income and wealth categories, tend to diminish in relative importance with greater income and wealth. Investment assets, of course, are exposed to fluctuation in market value, unlike liquid assets whose face values remain constant. The strong uptrend in common stock prices during the postwar period undoubtedly accounted for a substantial portion of the wealth in investment asset form held by consumer units in the upper and upper-middle wealth ranges.

In addition to liquid assets, homes and automobiles, of course, were found to be widely distributed among the consumer population, with well over half of all units owning such assets. Corporate stock, investment real estate and business and professional equities, however, were much more highly concentrated, each of these categories being represented in the holdings of fewer than one-fifth of all units.

FINANCIAL ASSETS OF THE WELL-TO-DO

Substantially all—95 percent or more—of all consumer units having total wealth of at least 10,000 dollars or income of 7,500 held liquid and investment assets in some combination. Among the top three wealth and income strata (wealth exceeding 100,000 dollars and income of 25,000 or more), portfolios of such assets were found almost universally. The ownership of investment-type assets, particularly common stocks and municipal securities, appeared to be strongly related to both wealth and income. The upper wealth and income groups clearly favored such assets, which considerably overshadowed their holdings of the more liquid deposit and deposit-type assets dominant in investment portfolios of the less well-to-do.

Especially striking is the pronounced appeal of municipal bonds to the topmost income and wealth group. Two-thirds of all units with income exceeding 100,000 dollars and 41 percent of those having total wealth of at least 500,000 owned state and local government securities. The tax-exemption feature, naturally, explains this, the structure of the Federal individual income tax making municipal obligations highly attractive to upper-bracket taxpayers but quite unappealing to those in more modest circumstances.

Wealth in such other forms as mortgages, U.S. Government securities and mutual fund shares also displays a tendency to loom larger in relative importance the greater is total wealth or income. Holdings of real estate, direct investments in business and equities in company savings plans, however, taper off somewhat, relatively, within the upper wealth and income ranges.

THE BERLIN WALL PROVES INEFFECTIVE

(Mr. CURTIS (at the request of Mr. WYATT) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. CURTIS. Mr. Speaker, an editorial in the Washington Post on July 19, 1967, pinpoints the hazards of the mischievous interest equalization tax. I have vigorously opposed this tax since it was first proposed. The experience in administering it confirms my fears that this is America's financial Berlin wall.

The tax was first adopted as a "temporary" measure in 1964. At that time, I expressed the opinion that it would become a permanent penalty on certain types of U.S. private investment abroad. Now, 3 years later, we are still anesthetized by this mere palliative and have made little progress in coming to grips with the basic cause of the outflow of U.S. funds. In fact, a bill to extend and strengthen the tax for 2 more years is now before the Senate.

I have also argued that the administration would have to resort to an increasingly stringent and more complex set of controls if it seriously intends to stem the outflow of private capital by this method. The Post documents the fact that this proliferation of neomerchantlike controls has occurred.

Despite this increasing restrictiveness, the Post reports that there is "wholesale evasion of the IET by sharp operators." The Treasury itself admits that illegal transactions may be running as high as \$1 billion a year. As a result, the administration is now asking for tighter rules requiring American sellers of foreign securities to obtain a "validation certificate" to show that the IET had been paid. I doubt that even this will plug all the tunnels and breaches in our Berlin wall.

We are therefore faced with an anomalous situation—though these controls are breeding new controls, private enterprise continues to find ways of getting around this tax. Our isolationism in the credit markets has failed to curb our balance of payments deficit. The IET inhibits the integration of international credit markets, engenders demands for additional bureaucratic controls, and hinders the search for fundamental